



**Federation of Small Businesses**  
**Ffederasiwn y Busnesau Bach**  
*The UK's Leading Business Organisation*  
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21<sup>st</sup> May 2014

Jocelyn Davies AM  
C/O Bethan Davies  
Finance Committee  
National Assembly for Wales  
Cardiff Bay  
Cardiff  
CF99 1NA

Dear Jocelyn

**RE: Best Practice Budget Processes**

FSB Wales welcomes the opportunity to present its views to the Finance Committee on the National Assembly's budget processes. FSB Wales is the authoritative voice of businesses in Wales. With 10,000 members, a Welsh Policy Unit, two regional committees and twelve branch committees; FSB Wales is in constant contact with business at a grassroots level. It undertakes regular online surveys of its members as well as a biennial membership survey on a wide range of issues and concerns facing small business.

**Introduction**

FSB Wales has previously argued for an enhanced treasury function as part of the Welsh Government to increase the quality of financial decision making (attached are a discussion paper on a Welsh Treasury and the recent FSB Wales response to pre-legislative scrutiny of the Wales Bill). This is particularly prescient given the additional fiscal powers provided for by the Wales Bill currently in Parliament. With numerous competing priorities for resources, FSB Wales feels that increasing the transparency of the budget process would enable greater public scrutiny and accountability. This was reflected in our response to both parts of the Commission on Devolution in Wales' work. The FSB believes that this position is consistent with those who would wish to see Wales establish a growing economy built on genuine principles of sustainable development.

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## Treasury Function

The Welsh Government has historically taken an approach to capital investment based on departmental priorities that has led to a relatively fragmented approach to the allocation of resources. Encouragingly, this is recognised in the Wales Infrastructure Investment Plan (WIIP), which is a welcome addition to the capacity of the Finance Department.

One of the strongest elements of the WIIP is its stated preference for the *5 case model* approach to appraising the business cases of prospective capital investments. Developed in partnership with the UK Government's Treasury, the *5 case model* is taken from the Green Book approach to investment allocation and will surely help to further the Welsh Government's stated aims of strengthening cross-departmental processes.

The UK Government's Treasury is renowned for its rigorous approach to the allocation of resources. A simple replication of this in Wales would not necessarily be appropriate. However, a strengthened treasury function in Wales could go much further in applying the Green Book principles to the Welsh Government's £1bn capital budget across departments. Moreover, it could play a significant role in determining the priorities of any future capital investment from borrowing powers, should they be devolved as recommended by the Silk Commission.

## Economic Data

At present, there is a lack of economic data relating to Wales. This is in marked contrast to other devolved administrations where extensive economic statistics are produced and analysed to inform decision making. For instance, the Scottish Government will receive identical tax powers under the Scotland Act 2012 but has a number of economic publications to aid its decision making such as quarterly GDP figures and significant input-output data developed under the Scottish National Accounts Project. This enables tax changes to be modelled and better informs decision making. FSB Wales would argue similar provision should be made for Wales as part of an enhanced treasury function. This would then feed into discussion around the budget at an early stage in the process.

FSB Wales accepts many of the arguments which contend that assessing the effectiveness of public policy initiatives by recourse to data based on Gross Value Added (GVA) or for that matter Gross Domestic Household Income, is not always successful. However, the absence of regular data of this kind compounds the difficulty of assessing the impact of government policy and spending. As an organisation committed to developing a sound evidence base for intervention, we believe that regular and up to date reporting on productivity via the production of quarterly GVA statistics is required.

We also hold that publishing reliable and contemporary data is a key element of enabling the National Assembly and the wider public sphere to hold the Government of Wales and its associated bodies such as the Wales European Funding Office among others to account for its spending decisions.

Finally on the matter of economic data, we believe that the development of a suite of indices alongside regular reporting of Wales GVA, is possible (as we have stated above it is undertaken in other parts of the UK) and can be developed to demonstrate the wider value of government spending. It can also help in promoting sustainable development as well as tackling poverty and promoting genuine economic convergence.

## Revenue Data

Presently, there is little statistical data available to document how much revenue is likely to be raised from taxation in Wales, except for the recent experimental statistics provided by HMRC on tax receipts disaggregated on a four nation basis.

The Silk Commission's published research papers highlight a number of alternative forms of fiscal federalism within an international context. For example, the Government of New South Wales has its own Treasury that forecasts and reports on revenue raised within the state and provides policy analysis to inform the fiscal policies of the NSW Government. Additionally, Government Revenue and Expenditure Scotland (GERS) seeks to approximate Scottish tax receipts and provide finer detail on public finance that enables wider debate in civic society.

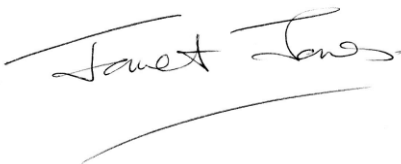
FSB Wales believes Wales needs similar accounting systems that would allow the modelling of economic decisions, enabling more coherent planning of policy decisions regarding the Welsh tax base. This could take the form of a Government and Expenditure Wales document.

## Tax Impact Assessment

FSB Wales would like to see Tax Impact Assessments accompany any decision made around devolved taxation in Wales. This would seek to adopt best practice in assessing the impact of policy measures in a similar way to Regulatory Impact Assessments as specified under the Government of Wales Act 2006 for all Welsh legislation. Ideally, the process governing this would be thorough, including early implementation in the decision making process and well resourced analysis with independent input to ensure impacts are properly measured.

I hope you find the comments of FSB Wales of interest.

Yours sincerely



**Janet Jones**  
**Wales Policy Chair**  
**Federation of Small Businesses Wales**

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FSB Wales

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Draft Wales Bill

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9<sup>th</sup> January 2014

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## **Draft Wales Bill – Evidence to the Welsh Affairs Committee The Federation of Small Businesses Wales**

The Federation of Small Businesses Wales welcomes the opportunity to present its views to the Welsh Affairs Committee on the draft Wales Bill. FSB Wales is the authoritative voice of small businesses in Wales. With 10,000 members, a Welsh Policy Unit, two regional committees and twelve branch committees; FSB Wales is in constant contact with small businesses at a grassroots level. It undertakes a monthly online survey of its members as well as an annual membership survey on a wide range of issues and concerns facing small business.

### **Introduction**

FSB Wales has been heavily involved with the Commission on Devolution in Wales (Silk Commission). In order to inform our responses to both parts of the Silk Commission, FSB Wales undertook four consultation events with members across Wales, two in North Wales and two in South Wales. This enabled us to submit informed positions on both parts of the Silk Commission's work and to engage fully in the details of the Welsh devolution settlement.

### **Draft Wales Bill**

FSB Wales broadly welcomes the draft Wales Bill and believes it largely reflects the recommendations of the Silk Commission, which were based on a strong body of evidence. However, there are a number of areas that need to be addressed or clarified in relation to the Bill as it passes through Parliament. They are as follows:

- **Non-Domestic Rates (Business Rates):** The draft Wales Bill appears to contain no reference to the full devolution of Non-Domestic Rates, despite the Explanatory Memorandum stating; *“The draft Bill also implements the Commission’s recommendation to fully devolve business rates in Wales”*.<sup>1</sup> As both the Silk Commission part one report and the UK Government’s response note, legislation relating to Business Rates is already devolved under the Government of Wales Act 2006, although the wording relates only to *‘local government finance’*. This ambiguity has led to a situation where it is not clear which mechanism will enable the full devolution of business rates and whether this will be as the result of initiation from Welsh Government or the UK Government.

While the Scottish experience is not directly transferable to Wales due to the important differences between reserved and conferred models of devolution, the Scotland 1998 Act has a far more explicit wording on this matter, stating in an exception to a reservation on financial and economic matters; *“Local taxes to fund local authority expenditure (for example, council tax and non-domestic rates)”*.<sup>2</sup> FSB Wales suggests that the draft Wales Bill could be amended to create a similar explicit statement to provide clarity. This could be done either by amending Schedule 7 paragraph 12 of the Government of Wales Act 2006 to include wording similar to the Scotland Act 1998 or by placing non-domestic rates explicitly

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<sup>1</sup> Draft Wales Bill. P. 68.

<sup>2</sup> Scotland Act 1998. Schedule 5, Part II, Section A1. [Online]. Available at: <http://www.legislation.gov.uk/ukpga/1998/46/contents> (accessed 8th January 2014).



in the list of devolved taxes under Part 4A as proposed by the draft Wales Bill, thereby adding it to the proposed paragraph 16A of Schedule 7 in the 2006 Act.

The wording in the draft Wales Bill could allow for any secondary legislation needed to remove the existing joint accounting arrangements and move Non-Domestic Rate receipts from Departmental Expenditure Limits to Annually Managed Expenditure, essentially moving NDR from the block grant to an income stream, for the purposes of the Welsh Government's budget. This would be carried out with agreement from both the Welsh and UK Governments.

- **Income Tax:** FSB Wales has been supportive of the income tax proposals outlined in the Silk Commission's recommendations noting that income tax is also a form of business tax for many of our self-employed members. However, FSB Wales believes the 'lock-step' model proposed in the draft Bill is ill suited for devolution. FSB Wales believes the lock-step model is unlikely to be used by the current or future Welsh Governments as it does not provide sufficient flexibility in policy decision making. For instance, a policy of reducing the higher rate of taxation could be examined under the Silk Commission's original proposals that could prove beneficial to our members.

This is significant because the availability of capital borrowing powers is contingent on the level of income tax devolution available to the Welsh Government, following a successful referendum. The lock-step model is less attractive and would therefore discourage the Welsh Government from pursuing devolution and the additional capital borrowing powers that would accompany it.

- **Air Passenger Duty:** The Silk Commission recommended the devolution of Air Passenger Duty (APD) on short haul flights; bringing Wales into line with Northern Ireland's current competencies. FSB Wales was disappointed not to see further consideration of this issue as was the case with Stamp Duty Land Tax and believes devolution of this tax would be beneficial to businesses in Wales. Our position remains that the rationale behind fiscal autonomy is the potential to create attractive differences in tax policy in Wales. FSB Wales maintains that Air Passenger Duty has similar characteristics to Stamp Duty Land Tax, including an immobile tax base, and is therefore suitable for devolution to Wales. The decision to omit APD for short haul flights in the Wales Bill is therefore counterintuitive.
- **Future tax devolution:** FSB Wales notes that the Silk Commission recommended Corporation Tax should be devolved to Wales only if similar devolution occurs in Northern Ireland and Scotland. The Commission also stated in recommendation 9 that there should be a presumption in favour of devolution for any new UK taxes<sup>3</sup>. While FSB Wales members consulted in our initial response were undecided on whether Corporation Tax should be devolved they felt Wales should not be at a competitive disadvantage if similar opportunities were to arise in Scotland and Northern Ireland. This necessitates a mechanism within the Wales Bill for adding additional taxes to the Welsh Government and National Assembly's remit. FSB Wales believes this should be included in the Wales Bill.

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<sup>3</sup> Commission on Devolution in Wales. 2012. *Empowerment and Responsibility: Financial Powers to Strengthen Wales*. P.76 & 84.



- **NI Relief and Capital Allowances:** While not recommending the devolution of Corporation Tax or National Insurance Contributions, the Silk Commission did suggest in recommendations 14 and 15 that the Welsh Government should be able to fund differential reliefs in Wales<sup>4</sup>. Both these recommendations were accepted by the UK Government. This could be used for instance to provide capital allowances in enterprise zones, or a targeted reduction in employer NICs to accompany schemes such as Jobs Growth Wales. This could provide a more efficient means of supporting the employment of targeted groups. While recognising that welfare issues are not devolved, such an approach would allow the Welsh Government the flexibility to stimulate employment and job creation in a targeted way.

FSB Wales would like further clarification on the mechanism that would allow this to take place. If primary legislation is required to enable this to happen then this should be done through the Wales Bill. Recommendation 10 also suggested that the Welsh Government should be able to fund tax reliefs on other taxes in agreement with the UK government<sup>5</sup>. This issue should be considered by the Committee.

- **Treasury Function (including tax impact assessment)** – The Silk Commission suggested any new fiscal powers should be accompanied by appropriate treasury capacity in Wales. While this is largely a matter for the Welsh Government, FSB Wales has previously argued that far more robust economic statistics are needed on the Welsh economy to inform decision making on tax changes. For instance, the Scottish Government will receive identical tax powers under the Scotland Act 2012 but has a number of economic publications to aid its decision making such as; Government Expenditure and Revenue Scotland, quarterly GDP figures and significant input output data developed under the Scottish National Accounts Project<sup>6</sup>. All this enables tax changes to be modelled and better informs decision making. FSB Wales would argue similar provision should be made for Wales.

Returning to the draft Wales Bill, FSB Wales would like to see the Bill amended to include provisions for Tax Impact Assessments. This would seek to adopt best practice in assessing the impact of policy measures in a similar way to Regulatory Impact Assessments as specified under the Government of Wales Act 2006 for all Welsh legislation. Ideally, the process governing this would be thorough, including early implementation in the decision making process and well resourced analysis with independent input to ensure impacts are properly measured. However, FSB Wales recognises that the exact impact assessment process would be a matter for the Welsh Government and not for the draft Wales Bill.

## Conclusion

FSB Wales welcomes the opportunity to contribute to the pre-legislative scrutiny of the draft Wales Bill. FSB Wales believes the Silk Commission process provided a thorough basis on which to devolve fiscal powers to the Welsh Government and National Assembly for Wales and looks forward to the Welsh Affairs Committee scrutiny of the UK Government's proposals. This should include further

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<sup>4</sup> Ibid. P.87 & 90.

<sup>5</sup> Ibid. P.76.

<sup>6</sup> Scottish Government. Scottish National Accounts Project. [Online]. Available at: <http://www.scotland.gov.uk/Topics/Statistics/Browse/Economy/SNAP> (accessed 8th January 2014)



consideration of a number of issues including the process by which NDR will be devolved and the ability for the Welsh Government to create tax reliefs in certain areas.





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## The Federation of Small Businesses

The FSB is non-profit making and non-party political. The Federation of Small Businesses is the UK's **largest campaigning pressure group** promoting and protecting the interests of the self-employed and owners of small firms. Formed in 1974, it now has **200,000 members across 33 regions and 194 branches**.

### Lobbying

Our lobbying arm - led by the Westminster Press and Parliamentary office - applies pressure on MPs, Government and Whitehall and puts the FSB viewpoint over to the media. The FSB also has Press and Parliamentary Offices in Glasgow, Cardiff and Belfast to lobby the devolved assemblies. Development Managers work alongside members in our regions to further FSB influence at a regional level.

### Member Benefits

In addition, Member Services is committed to delivering a wide range of high quality, good value business services to members of the FSB. These services will be subject to continuing review and will represent a positive enhancement to the benefit of membership of the Leading Business Organisation in the UK.

### Vision

A community that recognises, values and adequately rewards the endeavours of those who are self employed and small business owners within the UK

The Federation of Small Businesses is the trading name of the National Federation of Self Employed and Small Businesses Limited. Our registered office is Sir Frank Whittle Way, Blackpool Business Park, Blackpool, Lancashire, FY4 2FE. Our company number is 1263540 and our Data Protection Act registration number is Z7356876. We are a non-profit making organisation and we have registered with the Information Commissioner on a voluntary basis.

### Associate Companies

We have two associated companies, FSB (Member Services) Limited (company number 02875304 and Data Protection Act registration number Z7356601) and NFSE Sales Limited (company number 01222258 and Data Protection Act registration number Z7315310).

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# **FSB Wales Discussion Paper**

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A Treasury  
Function for  
Wales

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21<sup>st</sup> November 2012

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## **Introduction**

In its submission to the Silk Commission, FSB Wales highlighted the need for greater accountability arrangements within Welsh Government to ensure that value for money is being maximised through capital investment.

FSB Wales has previously argued in favour of a treasury function for Wales that would strengthen the Welsh Government's Finance Department and enable it to place economic growth at the core of decision making over capital investment in Wales. The FSB believes that this position is consistent with those who would wish to see Wales establish a growing economy built on genuine principles of sustainable development.

However, FSB Wales is also firmly of the view that the good intentions shared by many in seeking to create for Wales a sustainable economic future, must now be matched by action built on strong and principled leadership from within the Welsh Government.

## **Responding to the Silk Commission: Creating a Welsh Treasury**

FSB Wales recognises the Welsh Government's concern over the challenges it faces in its capital expenditure budget. Capital expenditure is often vital to driving economic growth in Wales by providing important jobs in the construction industry as well as laying the foundations for future economic growth by building the critical infrastructure on which Wales' businesses rely. FSB Wales agrees that the Welsh Government is likely to have great difficulty in delivering the infrastructure investment businesses in Wales need while its capital budget decreases by 41 per cent over the budgetary period.

FSB Wales welcomes the recent agreement on borrowing powers between the Welsh and UK Governments that has in principle opened the door to additional powers to leverage capital investment; however, more could still be done. The linchpin of the argument for further fiscal devolution advocated by the Commission on Devolution in Wales (Silk Commission) is accountability and FSB Wales endorses its recommendations that will lead to empowerment and responsibility. This accountability is needed if borrowing powers for capital expenditure are to be devolved and used effectively. However, there must also be greater accountability within Welsh Government in order to ensure every Welsh penny spent on capital expenditure is maximising Wales' economic prosperity.

Two changes to the heart of governance in Wales should go hand in hand with the move towards greater borrowing and fiscal responsibility advocated by the Silk Commission<sup>1</sup>. These are; a more rigorous process for allocating capital expenditure in Wales and a step change in capacity to provide improved modelling of public policy decision making. This would mean the creation of a treasury function in Wales, a finance department with economic growth at its core as advocated by the Silk Commission in line with earlier FSB Wales recommendations.

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<sup>1</sup> Commission on Devolution in Wales. 2012. *Empowerment and Responsibility: financial powers to strengthen Wales*.



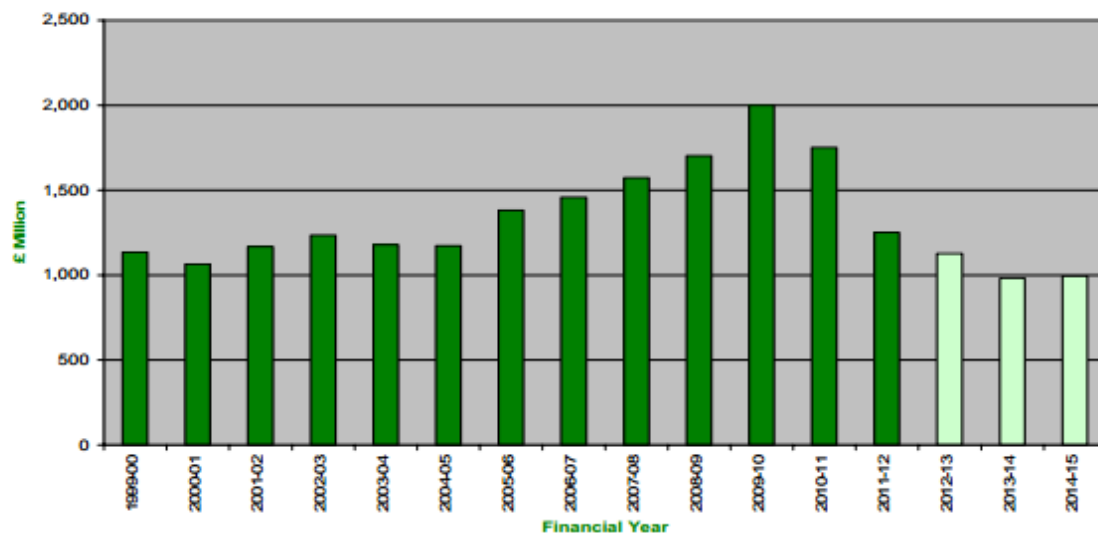
## Prioritisation of Capital Investment

The Welsh Government has historically taken an approach to capital investment based on departmental priorities that has led to a relatively fragmented approach to the allocation of resources. Encouragingly, this is recognised in the Wales Infrastructure Investment Plan (WIIP) which states:

*“Historically the Welsh Government made decisions on infrastructure need and investment largely within departmental portfolios, each with its own framework of strategies and investment plans, published policies and programme management.”<sup>2</sup>*

In times of rising capital expenditure, the demerits of such an approach were not as obvious as might have been expected. However, the Welsh Government’s declining capital budget has sharpened focus on producing value for money and prioritising capital spend on projects that bring real return to Wales<sup>3</sup>. Looking to the future, it is important that Wales has a treasury function that is fit for purpose and can deliver the capital investment that businesses need. It is also important to acknowledge the instability of the wider economic environment, with a growing uncertainty from Europe and the prospect of prolonged low levels of economic activity on the horizon.

**Chart 1.2 – Wales Capital Departmental Expenditure Limit in Real Terms since Devolution (2010 – 11 prices)**



In this respect, the Wales Infrastructure Investment Plan is a welcome addition to the Finance Department’s capacity. Indeed, one of the strongest elements of the WIIP is its stated preference for

<sup>2</sup> Welsh Government. 2012. Programme for Government: Chapter 1 – Stronger Foundations for Growth and Jobs [Online]. Available at: <http://wales.gov.uk/docs/caecd/publications/120522wiipchapter1eng.pdf> (Accessed 16th November 2012).

<sup>3</sup> Welsh Government. 2011. Draft Budget for Growth and Jobs [Online]. Available at: <http://wales.gov.uk/docs/finance/report/111004narrativeen.pdf> (accessed 16th November 2012).



the use of the *5 case model* approach to appraising the business cases of prospective capital investments<sup>4</sup>. Developed in partnership with the UK Government's Treasury, the *5 case model* is taken from the Green Book approach<sup>5</sup> to investment allocation and will surely help to further the Welsh Government's stated aims:

*"We will be supplementing departmental processes and building on previous mechanisms by strengthening cross-departmental procedures, including more rigorous, consistent evaluation and ranking of investment options and establishing a new Strategic Investment Committee to support Ministerial decisions. These new procedures will be used to inform decisions on allocating around £250m of capital reserves available in 2013-14 and 2014-15, details of which will be set out in the autumn. The Strategic Investment Committee will also play a key role in advising Ministers on the development of new innovative funding mechanisms."*<sup>6</sup>

The UK Government's Treasury is renowned for its rigorous approach to the allocation of resources. A simple replication of this in Wales would not necessarily be appropriate. However, a strengthened treasury function in Wales could go much further in applying the Green Book principles to the Welsh Government's £1bn capital budget across departments<sup>7</sup>. Moreover, it could play a significant role in determining the priorities of any future capital investment from borrowing powers, should they be devolved as recommended by the Silk Commission<sup>8</sup>.

### **Modelling fiscal policy decisions**

Creating a strengthened treasury function in Wales by emboldening the Welsh Government's Finance Department is the first step in ensuring the Welsh Government's budget is used in the most effective manner to deliver sustainable economic growth.

This was also strongly supported by the Silk Commission that recommended a Welsh Treasury, including the aspects discussed below, to manage further fiscal powers. Internationally, a greater variety of data exists at regional level on economic performance thus facilitating a much wider debate on allocating resources. If the Welsh Government is to assume greater fiscal accountability then similar resource must be available within the Welsh Government's Finance Department to model public policy decisions. As the Holtham Commission noted in its final report:

*"Should tax-varying powers be devolved, Welsh Ministers are likely to require some specialist support to help determine tax policy. Perhaps counter-intuitively, the need for expert advice might be greater for some of the smaller taxes which primarily have a policy rationale than for income tax, which has a revenue-raising objective...we envisage that some enhancement*

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<sup>4</sup> Welsh Government. 2012. *The Five Case Model: a tool for better decision making* [Online]. Available at: <http://wales.gov.uk/funding/wiip2012/5casemodel/?lang=en> (accessed 16th November 2012).

<sup>5</sup> Welsh Government. 2012. *Delivering Public Value From Spending Proposals: Green Book guidance on public sector business cases using the five case model* [Online]. Available at: <http://wales.gov.uk/docs/caecd/publications/1210035cmfullguidance.pdf> (accessed 16th November 2012).

<sup>6</sup> *Ibid*

<sup>7</sup> Welsh Government. 2011. *Draft Budget for Growth and Jobs* [Online]. Available at: <http://wales.gov.uk/docs/finance/report/111004narrativeen.pdf> (accessed 16th November 2012).

<sup>8</sup> Commission on Devolution in Wales. 2012. *Empowerment and Responsibility: financial powers to strengthen Wales*. P.119



*to the Assembly Government's Finance Department would be necessary once any tax-varying powers are devolved, though this is likely to comprise a fairly small unit of specialists, including economics and statistical expertise.*<sup>9</sup>

Presently, there is little statistical data available to document how much revenue is likely to be raised from taxation in Wales, except for the significant work carried out by the Holtham Commission in 2007-08 and the Silk Commission for the period 2007-11.

The Silk Commission's published research papers highlight a number of alternative forms of fiscal federalism within an international context<sup>10</sup>. For example, the Government of New South Wales has its own Treasury that forecasts and reports on revenue raised within the state and provides policy analysis to inform the fiscal policies of the NSW Government<sup>11</sup>. Additionally, Government Revenue and Expenditure Scotland (GERS) seeks to approximate Scottish tax receipts and provide finer detail on public finance that enables wider debate in civic society<sup>12</sup>.

Wales would need a similar accounting system that would allow the modelling of economic decisions, enabling more coherent planning of policy decisions regarding the Welsh tax base. This was discussed by constitutional expert Alan Trench who noted:

*"Among the signal services that the Holtham Commission has done is to provide more accurate and up-to-date data about Wales's public finances than we've ever had before, particularly about tax revenues. On the basis of their figure (£17.1 billion), I've calculated that in 2007-08 Wales's fiscal deficit was £6.3 billion. That's a terrifying sum: just under a quarter of all public spending in Wales, and over 14 per cent of national income (gross value added) generated in Wales.*<sup>13</sup>

Allowing disaggregated detailed data to be collected on a Wales level would help the Welsh Government to ascertain areas of policy development to maximise future growth potential in the Welsh economy. It is therefore encouraging to see the Silk Commission recommend an emphasis on strengthening the Welsh tax base as a key element of a Welsh Treasury; FSB Wales would like to see this put into practice<sup>14</sup>.

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<sup>9</sup> Independent Commission on Funding and Finance for Wales . 2010. *Fairness and Accountability: A new funding settlement for Wales* [Online]. Available at:

<http://wales.gov.uk/docs/icffw/report/100705fundingsettlementfullen.pdf> (accessed 16th November 2012).

<sup>10</sup> Commission on Devolution in Wales. 2012. *International Fiscal Systems* [Online]. Available at:

<http://commissionondevolutioninwales.independent.gov.uk/files/2012/11/Context-paper-International-Fiscal-Systems.pdf> (accessed 20th November 2012).

<sup>11</sup> New South Wales Treasury. 2012. *Report on State Finances* [Online]. Available at:

[http://www.treasury.nsw.gov.au/\\_data/assets/pdf\\_file/0020/24059/2011-12\\_NSW\\_Report\\_on\\_State\\_Finances\\_small\\_dnd.pdf](http://www.treasury.nsw.gov.au/_data/assets/pdf_file/0020/24059/2011-12_NSW_Report_on_State_Finances_small_dnd.pdf) (accessed 20th November 2012).

<sup>12</sup> Scottish Government. 2012. *Government Expenditure and Revenue Scotland* [Online]. Available at:

<http://www.scotland.gov.uk/Topics/Statistics/Browse/Economy/GERS> (accessed 16th November 2012).

<sup>13</sup> Trench, A. 2010. *Doing the sums* [Online]. Available at: <http://www.clickonwales.org/2010/08/doing-the-sums/> (accessed 16th November 2012).

<sup>14</sup> Commission on Devolution in Wales. 2012. *Empowerment and Responsibility: financial powers to strengthen Wales*. P.135



Beyond the headline statistics around tax revenue and public expenditure in Wales there is also a greater need for the modelling of public policy priorities to ensure that the full implications of Welsh Government decisions are well understood by decision makers. All nations in Europe hold public accounts in the form of Input Output (IO) tables; this is true of Wales where Cardiff Business School have managed IO tables for more than twenty years. However, it is necessary to go beyond this to ensure any fiscal changes in Wales are done on sound economic advice, particularly through the creation of a Computed General Equilibrium Model (CGE), something already in existence in Scotland<sup>15</sup>. As Dr Crawley and Professor Munday of Cardiff Business School note in their response to the Silk Commission:

*“...as yet there has been limited progress towards a full Welsh model. If Wales was to gain fiscal powers in respect of tax it would be difficult for economists to advise the Welsh Government on likely consequences without the construction of a specific Welsh Model.”<sup>16</sup>*

This is reinforced by Antonia Borges of the OECD Economic and Statistics Department who says:

*“Typically, the approach is used for horizontal policies that cut across many sectors, or perhaps have an impact on producers and consumers simultaneously... In this sense the impacts of tax reform, trade policy, global energy or agricultural policy, large projects or the introduction of new technologies are typical issues requiring a general equilibrium approach.”<sup>17</sup>*

Such an approach to economic modelling should be examined by the Welsh and UK Governments in anticipation of any further fiscal autonomy, as prescribed by part 1 of the Silk Commission.

Gross Value-Added (GVA) for Wales is currently published annually with a significant time lag for the data meaning it is often out of date when it is published. FSB Wales would like to see far more frequent reporting of GVA for Wales, where again Scotland has taken a lead on this issue, in order to provide an up-to-date picture of economic performance.

Helpfully, the Silk Commission has recently published a paper examining GVA in Wales and its relationship to tax revenues and has called for greater clarity on key statistics such as GVA<sup>18</sup>. For the business community, the relative decline in Gross Operating Surplus, the element of GVA relating to profitability, highlights an area of future policy focus for Welsh Government, particularly as it would impact on revenue raised in Wales from taxation. Providing greater transparency in this way will enable civic society greater capacity to scrutinise decisions made by the Welsh Government and ensure that the Welsh Government is able to accurately focus its resources on projects that maximise economic development.

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<sup>15</sup> <http://www.scotland.gov.uk/Publications/2008/11/13110942/4>

<sup>16</sup> Crawley, A. and Munday, M. 2012. *Evidence proposal for the Silk Commission: CGE for Policy Analysis* [Online]. Available at: <http://commissionondevolutioninwales.independent.gov.uk/files/2012/02/Dr-Andrew-Crawley-and-Prof-Max-Munday-Cardiff-Business-School-English.pdf> (accessed 16th November 2012)

<sup>17</sup> Borges, A. *Applied General Equilibrium Models: an assessment of their usefulness in policy analysis* [Online]. Available at: <http://www.oecd.org/economy/economicoutlookanalysisandforecasts/35567467.pdf> (accessed 16th November 2012).

<sup>18</sup> Commission on Devolution in Wales. 2012. *Economic Context in Wales* [Online]. Available at: <http://commissionondevolutioninwales.independent.gov.uk/files/2012/11/Context-paper-Economic-context-in-Wales.pdf> (accessed 16th November 2012).



Finally, by introducing the necessary precursors to fiscal autonomy the Welsh Government will also have the opportunity to influence the other cornerstone of financial independence in Wales; the Barnett Formula. It has long been argued that the Barnett formula has left Wales underfunded compared to her sister nations of the UK<sup>19</sup>. Academic work in Scotland has sought to understand the practical workings of the Barnett formula and concluded that it is most effective when “Political influence” is also included in bargaining discussions<sup>20</sup>.

This influence can be achieved by proposing joint workings and establishing mutual benefits through a constructive framework of collective work programmes. A new treasury can model the most optimum solutions for Wales and aid in influencing decisions in a phased manner. Indeed the Silk Commission report on empowerment and responsibility proposes a similar approach:

“The Welsh Government and UK Government, and their respective Treasuries, should use both devolved and non-devolved economic powers to strengthen the Welsh tax base. The Bilateral Committee on Welsh Fiscal Devolution referred to (above) would provide a forum for creating a stronger bilateral focus on improving the Welsh economy”.

## Conclusion

The Silk Commission report on empowerment and responsibility has set some key challenges for decision makers in Wales and the UK in advancing the capacity and accountability of Welsh Government. FSB Wales would like to examine what steps are necessary to begin laying the foundation for a treasury function in Wales that would strengthen Welsh public finances and place an emphasis on economic growth. Critical issues, such as the working relationship with UK wide bodies such as the Office for Budget Responsibility, Office for National Statistics and Her Majesty’s Revenue and Customs must now be explored in order to provide a firm set of proposals for the creation of a strengthened Welsh Government Finance Department. Consensual proposals building on the good work done by the Silk Commission will serve both Wales and the UK well in the future.

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<sup>19</sup> Independent Commission on Funding and Finance for Wales . 2010. *Fairness and Accountability: A new funding settlement for Wales* [Online]. Available at: <http://wales.gov.uk/docs/icffw/report/100705fundingsettlementfullen.pdf> (accessed 21st November 2012).

<sup>20</sup> The Barnett allocation mechanism: formula plus influence  
Christie Alex, Swales J. Kim, *Regional Studies* Vol 44, No. 6, pp. 761-775 (2010)  
<http://dx.doi.org/10.1080/00343400903107710>



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**The Federation of Small Businesses**

The FSB is non-profit making and non-party political. The Federation of Small Businesses is the UK's **largest campaigning pressure group** promoting and protecting the interests of the self-employed and owners of small firms. Formed in 1974, it now has **200,000 members across 33 regions and 194 branches and in the region of 10,000 of those members are from businesses in Wales.**

**Lobbying**

Our lobbying arm - led by the Westminster Press and Parliamentary office - applies pressure on MPs, Government and Whitehall and puts the FSB viewpoint over to the media. The FSB also has Press and Parliamentary Offices in Glasgow, Cardiff and Belfast to lobby the devolved assemblies. Development Managers work alongside members in our regions to further FSB influence at a regional level.

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A community that recognises, values and adequately rewards the endeavours of those who are self employed and small business owners within the UK

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